



PROPOSED RULE MAKING

CR-102 (June 2004)

(Implements RCW 34.05.320)

Do **NOT** use for expedited rule making

Agency: Insurance Commissioner

☒ Preproposal Statement of Inquiry was filed as WSR 04-11-108; or☐ Expedited Rule Making--Proposed notice was filed as WSR _____; or☐ Proposal is exempt under RCW 34.05.310(4).☒ Original Notice☐ Supplemental Notice to WSR _____☐ Continuance of WSR _____

Title of rule and other identifying information: Clarification to Insurance Scoring rules.

Insurance Commissioner Matter No. R 2004-01

Hearing location(s):

John L O'Brien Building
House Hearing Room C,
504 15th Avenue SW
Olympia, WA 98504

Date: 9/30/04 Time: 10:00 AMDate of intended adoption: 10/14/04(Note: This is **NOT** the effective date)

Submit written comments to:

Name: Kacy Scott

Address: PO Box 40255, Olympia, WA 98504-0255

e-mail Kacys@oic.wa.govfax (360) 586-3109 by 9/29/04

Assistance for persons with disabilities: Contact

Lori Villaflora by 9/27/04TDD (360) 586-0241 or (360) 725-7087**Purpose of the proposal and its anticipated effects, including any changes in existing rules:**

The existing credit scoring rules, Chapter 284-24A, were reviewed and rewritten to provide more information. Data requirements for multivariate analysis were clarified to be more consistent with how insurers collect data. Data requirements for demographic factors were revised to allow insurers to group rural and urban territories when they provide data relative to consumers who have no available insurance score. A definition of "eligibility rules or guidelines" is added to help insurers understand what data are confidential. A new section is added to explain the process insurers must use to identify and file eligibility rules and guidelines. Finally, the types of information that insurers must provide to consumers when an adverse action is taken is clarified so that consumers will be sent information they can understand.

These proposed rules will reduce OIC staff time in reviewing rate filings. These proposed rules will also reduce consumer complaints because consumers will have better information about adverse actions taken by insurers based on insurance scores.

Reasons supporting proposal:

First, HB 2727 was enacted in the 2004 session to clarify the filing requirements for insurers who use insurance scoring to set rates. These proposed rules will help the implementation of this law. Second, the OIC has received many consumer complaints relating to the adverse actions notices required by RCW 48.18.545(2). Consumers have found notices confusing, and the complaints have suggested WAC 284-24A needs further amendments so insurers provide better information to consumers about their insurance scores.

Statutory authority for adoption: RCW 48.02.060, 48.18.545, 48.19.035, and 48.30.010**Statute being implemented:** RCW 48.18.545 and 48.19.035**Is rule necessary because of a:**

Federal Law?

☐ Yes ☒ No

Federal Court Decision?

☐ Yes ☒ No

State Court Decision?

☐ Yes ☒ No

If yes, CITATION:

DATE

August 17, 2004

NAME (type or print)

Mike Kreidler

SIGNATURE**TITLE**

Insurance Commissioner

CODE REVISER USE ONLY

Information input by Agency

**CODE REVISER'S OFFICE
STATE OF WASHINGTON
FILED****AUG 18 2004**TIME 8:09 amWSR 04-17-127

(COMPLETE REVERSE SIDE)

Agency comments or recommendations, if any, as to statutory language, implementation, enforcement, and fiscal matters:

These proposed rules will reduce OIC staff time in reviewing rate filings. These proposed rules will also reduce consumer complaints because consumers will have a better understanding of their credit score.

Name of proponent: Mike Kreidler, Insurance Commissioner

☐ Private
☐ Public
☒ Governmental

Name of agency personnel responsible for:

Name	Office Location	Phone
Drafting..... Lisa Smego	Tumwater, WA	(360) 725-7134
Implementation..... Beth Berendt	Tumwater, WA	(360) 725-7117
Enforcement..... Carol Sureau	Tumwater, WA	(360) 725-7050

Has a small business economic impact statement been prepared under chapter 19.85 RCW?

☐ Yes. Attach copy of small business economic impact statement.

A copy of the statement may be obtained by contacting:

Name:

Address:

phone () _____

fax () _____

e-mail _____

☒ No. Explain why no statement was prepared.

The proposed rule should have no negative economic impact on small businesses regulated by the OIC.

Is a cost-benefit analysis required under RCW 34.05.328?

☐ Yes A preliminary cost-benefit analysis may be obtained by contacting:

☒ No: Please explain: This proposal is not a significant legislative rule for the purposes of RCW 34.05.328.

WAC 284-24A-005 What definitions are important to these rules? "Demographic factors" means the factors listed below if they are used in an insurer's rates, rating tiers, rating factors, rating rules or risk classification plan:

- Age of the insured;
- Sex of the insured;
- The rating territory assigned to the insured's primary home address(~~(/and~~
- ~~□ The zip code assigned to the insured's primary home address)).~~

"Eligibility rules or guidelines" mean rules that determine whether a consumer is eligible for insurance from a single insurer or a group of affiliated companies. Eligibility rules or guidelines do not include rules that determine which company within an affiliated group of companies a consumer will be placed based on their insurance score or other underwriting criteria.

"Premium" means the same as RCW 48.18.170.

"Rate" means the cost of insurance per exposure unit.

"Rating factor" means a number used to calculate premium.

"Risk classification plan" means a plan to formulate different premiums for the same coverage based on group characteristics.

"Significant factor" means an important element of a consumer's credit history or insurance score. Examples of significant factors include:

- Bankruptcies, judgments, and liens;
- Delinquent accounts;
- Accounts in collection;
- Payment history;
- Outstanding debt;
- Length of credit history; and
- Number of credit accounts.

"Substantive underwriting factor" means a factor that is very important to an underwriting decision. Examples of substantive underwriting factors include:

- History of filing claims;
- History of moving violations or accidents;
- History of driving uninsured;
- Type of performance for which a vehicle is designed; and
- Maintenance of a structure to be insured.

"Vehicle" means any motorized vehicle that can be insured under a private passenger auto insurance policy.

AMENDATORY SECTION (Amending Matter No. R 2001-11, filed 9/6/02, effective 10/7/02)

WAC 284-24A-010 What must an insurer tell a consumer when it takes an adverse action? (1) An insurer must tell a consumer about significant factors that adversely affect the consumer's credit history or insurance score. As many as four factors may be needed to explain the adverse action.

(2) An insurer must explain what significant factors led to an adverse action in clear and simple language. The explanation must provide enough detail so that the consumer has enough information to understand why their credit history has adversely affected their:

- Eligibility for insurance; or
- Ability to buy insurance at the lowest premium or rate.

(3) ~~((An insurer may choose to tell consumers which factors positively affect a consumer's credit history or insurance score.))~~ The insurer is responsible to make sure the reason(s) an adverse action occurred can be understood by a consumer, even if the reason(s) are provided to the insurer by a vendor.

NEW SECTION

WAC 284-24A-033 How will an insurer or a group of affiliated insurers know its eligibility guidelines will be withheld from public inspection? Eligibility guidelines will be kept as confidential records if they:

- (1) Conform to the definition in WAC 284-24A-005; and
- (2) Are clearly identified in the filing.

To ensure confidentiality, insurers should submit eligibility guidelines in a separate and distinct part of the filing so they may be separated from other documents in the filing that are public records under RCW 48.19.040(5).

AMENDATORY SECTION (Amending Matter No. R 2001-11, filed 9/6/02, effective 10/7/02)

WAC 284-24A-045 If an insurer uses credit history or insurance scores to segment personal insurance business for rating purposes, how can the insurer show that its rating plan results in premium rates that are not excessive, inadequate, or unfairly discriminatory? If an insurer uses credit history or insurance scores to segment personal insurance business for rating purposes, the insurer must:

(1) Submit a multi variate analysis with the first rate and rule filing the insurer makes to comply with this law.

(2) Submit a multivariate analysis any time the insurer uses credit history or an insurance score to revise a risk classification plan, rating factor, rating plan, rating tier, or base rates.

AMENDATORY SECTION (Amending Matter No. R 2001-11, filed 9/6/02, effective 10/7/02)

WAC 284-24A-050 What types of information must an insurer include in a multivariate analysis? (1) A multivariate statistical analysis must evaluate the rating factors listed below (if applicable to the rating plan, and to the extent that data are credible):

(a) For homeowners, dwelling property, earthquake, and personal inland marine insurance:

- (i) (~~Credit history~~) Insurance score;
- (ii) Territory and/or (~~location~~) geographic area;
- (iii) Protection class;
- (iv) Amount of insurance;
- (v) Surcharges or discounts based on loss history;
- (vi) Number of family units; and
- (vii) Policy form relativity.

(b) For private passenger automobile, personal liability and theft, and mechanical breakdown insurance:

- (i) (~~Credit history~~) Insurance score;
- (ii) Driver class;
- (iii) Multicar discount;
- (iv) Territory and/or geographic area;
- (v) Vehicle use;
- (vi) Rating factors related to driving record; and
- (vii) Surcharges or discounts based on loss history.

(2) An insurer must provide a general description of the model used to perform the multivariate analysis, including the:

- (a) Formulas the model uses;
 - (b) Rating factors that are included in the modeling process;
- and

(c) Output from the model, such as indicated rates or rating factors.

(3) An insurer must show how the proposed rates or rating factors are related to the multivariate analysis.

AMENDATORY SECTION (Amending Matter No. R 2001-11, filed 9/6/02, effective 10/7/02)

WAC 284-24A-055 Should an insurer submit actuarial data based on demographic factors with an insurance scoring model or with a rate filing? (1) Insurers should not submit actuarial data based on demographic factors with their insurance scoring model.

(2) Insurers must submit actuarial data based on demographic factors to support any difference in rates or premiums based on:

- (a) **"No hit,"** which means the absence of credit history; or
- (b) **"No score,"** which means the inability to determine the consumer's credit history.

(3) The actuarial data must include:

(a) Loss history for an experience period acceptable to the commissioner. The length of the experience period will be determined by the amount of data available to the insurer.

(b) Earned exposures.

(c) Earned premiums.

(d) An analysis of the credibility of the data.

(4) The actuarial data must be segmented by:

(a) Demographic factors, which may be grouped in broader categories in a manner acceptable to the commissioner;

(b) "No hit"; and

(c) "No score."

(5) The actuarial data must show that the proposed rates, rating factors, rating rules, or risk classification plans relating to "no hit" and "no score" comply with RCW 48.19.020.

(6) These filings are subject to prior approval by the commissioner under the provisions of RCW 48.19.040.

AMENDATORY SECTION (Amending Matter No. R 2001-11, filed 9/6/02, effective 10/7/02)

WAC 284-24A-065 Questions and answers. (1) **Our insurance company uses insurance scoring bands (a range of scores) to determine what to charge a consumer based on their personal insurance score. Does an insurer have to file its insurance scoring bands?** Yes. If an insurer uses insurance scoring bands for rating purposes, the insurer must file them (and any future changes to those bands). The bands are part of the rating plan and must be supported by actuarial analysis.

(2) **What types of data can an insurer use to support a credit-based rating plan?** A credit-based rating plan must be based on the experience of the insurer, an affiliated insurer under the same management, or a licensed rating organization. The commissioner will accept data from other states where comparable credit-based rating plans are in effect.

(3) **The law says an insurer cannot use the number of credit inquiries to set rates or to deny insurance. Can an insurer consider the amount of time since the most recent inquiry?** Yes. The law prohibits an insurer from considering the number of credit-seeking or promotional inquiries. It does not prohibit ((you)) an insurer from considering the length of time since the most recent inquiry about a consumer's credit rating.

(4) **The law says an insurer cannot use collections identified with a medical industry code to set rates or to deny insurance. Not all credit vendors provide industry codes for collection accounts. If a vendor searches for medical references in a text field, would that action comply with the law?** Yes. Collections identified with a medical industry code cannot be used. If medical history is not coded or identified, insurers and vendors are not required to perform additional research.

(5) **The law says an insurer cannot use the initial purchase or finance of a vehicle or house that adds a new loan to the consumer's existing credit history to set rates or to deny insurance. Can my company use the number of such loans and/or the outstanding balance of such loans?**

- An insurer may not use the initial purchase of a home or vehicle to affect eligibility for insurance or insurance premiums. The initial purchase is the first loan taken out to buy a home or vehicle.
- An insurer may evaluate any subsequent borrowing by a consumer.
- A method an insurer or vendor can use to comply with the law is to eliminate vehicle and home loans from the consumer's debt load calculation.

(6) **The law says an insurer cannot use the total available line of credit to set rates or to deny insurance. Can my**

company use number of credit lines with limits over a set amount?

- The law prohibits use of data related to the consumer's total available line of credit. Any attribute that evaluates the total amount of credit available to a consumer is prohibited.
- ((You)) Your insurer may use the debt/credit ratio or other ratios that consider the actual debt load. The law does not restrict use of ratios that determine whether an insured is over-extended due to actual debt.

(7) What types of reasons can an insurer provide that include enough detail to adequately explain an adverse action? An insurer must explain any adverse action in clear and simple language. Insurers must not use cryptic phrases that do not explain why the consumer was charged a higher premium or determined to be ineligible for coverage by the insurer. Examples of adverse actions notices that do not meet this standard include, but are not limited to:

- Unfavorable length of credit history. This information is not clear because the consumer must do additional research to determine what a favorable length of credit history means. The insurer may overcome this problem by providing examples of how long a consumer must have credit history to be considered "favorable" to the insurer.
- Absence of revolving credit account. The information is not clear because the consumer must often do additional research to determine what the insurer considers "revolving credit" and why this is important to their insurance score. The insurer may overcome these problems by providing examples of revolving credit and explain why this is more important than other types of loans to the insurer.
- Age of oldest account or revolving credit account. The information is not clear because the consumer must do additional research to determine what a favorable account age means. The insurer may overcome this problem by providing examples of how long a consumer must have an account to be considered "favorable" to the insurer.
- Age that consumer first opened a credit account. The information is not clear because the consumer must often do additional research to determine what age they should have opened up a credit account to avoid an adverse action and why this is important to their insurance score. The insurer may overcome this problem by telling the consumer which age groups get the best insurance prices.
- Unfavorable number of bank or revolving accounts. This information is not clear because the consumer must do additional research to determine what a favorable number of bank or revolving accounts means. The insurer may overcome this problem by providing examples of the number of

accounts the consumer must have to be considered "favorable" to the insurer.

- Unfavorable debt ratio. This information is not clear because the consumer must often do additional research to determine what a "debt ratio" is and why it is important to their insurance score. The insurer may overcome these problems by explaining what a debt ratio means and how much debt a consumer can have to achieve a favorable debt ratio.
- Unfavorable number of accounts opened in past year. This information is not clear because the consumer must do additional research to determine how many accounts they can open before their insurance score is affected. The insurer may overcome this problem by providing examples of how many new accounts are considered "favorable" to the insurer.